BLACK HILLS CORP /SD/
Form 8-K
November 25, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

November 25, 2002
(Date of earliest event reported)

BLACK HILLS CORPORATION
(Exact name of Registrant as specified in its charter)

South Dakota	001-31303	46-0458824
(State of Incorporation)	(Commission File No.)	(IRS Employer Identification Number)

625 Ninth Street
P. O. Box 1400
Rapid City, South Dakota 57709
(Address of principal executive offices)

(605) 721-1700
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address if changed since last report)

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Item 5. Other Events

Black Hills Corporation announced today that our new independent public accountants, Deloitte & Touche LLP, have completed the audit of Black Hills Corporation's 2001, 2000 and 1999 financial statements that were originally audited by Arthur Andersen LLP. The reissued financial statements, including the

report of Deloitte & Touche, are included in this Form 8-K. The net income and earnings per share in the reissued financial statements are unchanged from amounts previously reported in our Form 10-K. Black Hills Corporation issued a press release to announce the reissuance of its financial statements, which is included as Exhibit 99.1 and incorporated herein by reference.

Because Black Hills Corporation is reissuing the financial statements as of a current date, three areas of the reissued financial statements being filed today differ from Black Hills Corporation's 2001 Annual Report on Form 10-K as previously filed:

- Discontinued operations presentation in the financial statements for the disposition of Black Hills Coal Network;
- Reporting of energy trading results on a net basis; and
- Disclosure of various subsequent events occurring since the 2001 financial statements were previously issued.

The discontinued operations disclosures and presentation changes in the reissued financial statements relate to Black Hills Corporation's second quarter 2002 plan to dispose of its coal marketing subsidiary, Black Hills Coal Network, Inc., and the completion of the sale in July 2002. Securities and Exchange Commission (SEC) rules require that once operations are reported as discontinued (as they were in the second and third quarter Form 10-Qs for 2002), subsequent financial statements must present such operations on a consistent basis. Discontinued operations disclosures have been added in a new footnote to Black Hills Corporation's reissued financial statements.

The trading reclassifications relate to new reporting requirements issued in 2002 by the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board. The EITF's decision requires that beginning in 2003 trading revenues and expenses be presented on a net basis. Black Hills elected to reclassify trading costs of approximately $1.0 billion, $1.3 billion and $0.6 billion in 2001, 2000 and 1999, respectively against trading revenues to present net trading margins in Black Hills Corporation's reissued income statements.

Given the current release of the reissued financial statements, reporting rules require that certain subsequent events in 2002 be disclosed to the extent they are relevant to the 2001, 2000 and 1999 financial statements. The reissued Black Hills Corporation financial statements include updated disclosures of various events in 2002.

The disclosure and presentation changes did not affect net income or earnings per share from amounts previously reported for Black Hills Corporation. Also, total assets, liabilities and shareholders' equity remain unchanged in the reissued financial statements from amounts previously reported for Black Hills Corporation. The discontinued operations and the trading reclassifications, however, did reduce total revenues of Black Hills Corporation from amounts previously reported and did reclassify other items on the income statements and balance sheets.

The following information is included as part of this Form 8-K:

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SELECTED FINANCIAL DATA

Years ended December 31,	2001	2000	1999
TOTAL ASSETS (in thousands)	$1,658,767	$1,320,320	$668,4
PROPERTY AND INVESTMENTS (in thousands)			
Total property and investments	$1,564,664	$1,072,013	$699,9
Accumulated depreciation and depletion	328,325	277,797	245,9
Capital expenditures	594,142	173,517*	152,9
CAPITALIZATION (in thousands)			
Long-term debt	$415,798	$307,092	$160,7
Preferred stock equity	5,549	4,000	
Common stock equity	509,615	278,346	216,6
Total capitalization	$930,962	$589,438	$377,3
CAPITALIZATION RATIOS			
Long-term debt	44.7%	52.1%	42.6
Preferred stock equity	0.6	0.7	-
Common stock equity	54.7	47.2	57.4
Total	100.0%	100.0%	100.0
TOTAL OPERATING REVENUES (in thousands)	$461,938	$292,142	$185,2
INCOME FROM CONTINUING OPERATIONS (in thousands)	$87,584	$52,812	$37,7
DIVIDENDS PAID ON COMMON STOCK (in thousands)	$28,517	$23,527	$22,6
COMMON STOCK DATA (in thousands)			
Shares outstanding, average	25,374	22,118	21,4
Shares outstanding, average diluted	25,771	22,281	21,4
Shares outstanding, end of year	26,652	22,921	21,3
(in dollars)			
Basic earnings per average share -			
Continuing operations	$ 3.43	$ 2.39	$ 1.
Discontinued operations	0.02	-	(0.

Total	$ 3.45	$ 2.39	$ 1.
Diluted earnings per average share -			
Continuing operations	$ 3.40	$ 2.37	$ 1.
Discontinued operations	0.02	-	(0.
Total	$ 3.42	$ 2.37	$ 1.
Dividends paid per share	$ 1.12	$ 1.08	$ 1.
Book value per share, end of year	$ 19.12	$ 12.14	$ 10.
RETURN ON COMMON STOCK EQUITY (year-end)	17.2%	19.0%	17.

*Excludes the non-cash acquisition of Indeck Capital, Inc.
**Includes impact of $8.8 million, or 41 cents per average share, write-down of certain oil and gas properties

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We are a growth oriented, diversified energy holding company operating principally in the United States. Our unregulated and regulated businesses have expanded significantly in recent years. Our integrated energy group, Black Hills Energy, Inc. (formerly Black Hills Energy Ventures, Inc.), produces and markets electric power and fuel. We produce and sell electricity in a number of markets, with a strong emphasis in the western United States. We also produce coal, natural gas and crude oil, primarily in the Rocky Mountain region, transport crude oil in Texas and market energy products nationwide. Our electric utility, Black Hills Power, Inc., serves an average of 59,600 customers in South Dakota, Wyoming and Montana. Our communications group offers state-of-the-art broadband communications services to over 23,700 residential and business customers in Rapid City and the northern Black Hills region of South Dakota through Black Hills FiberCom, LLC.

In 2002, we decided to discontinue operations in our coal marketing business due to challenges encountered in marketing our Wyodak coal from the Powder River Basin of Wyoming to East Coast markets. The non-strategic assets were sold effective August 1, 2002.

The following discussion should be read in conjunction with Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations - included in our 2001 Annual Report on Form 10-K and with Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations - included in our 2002 Periodic Reports on Form 10-Q that have been filed with the Securities and Exchange Commission.

Results of Operations

Consolidated Results

Overview

Revenue and net income (loss) from continuing operations provided by each

business group as a percentage of our total revenue and net income from continuing operations were as follows:

	2001	2000	1999
Revenue:			
Integrated energy	50%	38%	28%
Electric utility	46	59	72
Communications	4	3	-
	100%	100%	100%
Net income (loss) from continuing operations:			
Integrated energy	66%	56%	33%
Electric utility	52	70	73
Communications and other	(18)	(26)	(6)
	100%	100%	100%

During the second quarter of 2002, we adopted a plan to dispose of our coal marketing subsidiary, Black Hills Coal Network. The sale and disposal was finalized in July 2002. Results of operations have been restated to reflect the discontinued operations.

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2001 Compared to 2000

Consolidated income from continuing operations for 2001 was $87.6 million, compared to $52.8 million in 2000, or $3.40 per average common share in 2001, compared to $2.37 per average common share in 2000. Income from discontinued operations was $0.5 million or $0.02 per share in 2001 compared to $36,000 in 2000. This equates to a 17.2 percent and 19.0 percent return on year-end common equity in 2001 and 2000, respectively. The return on year-end common equity in 2001 was diluted due to the net proceeds of $163 million from the public stock offering in 2001.

We reported record earnings in 2001, primarily due to strong natural gas marketing activity, increased fuel production, expanded power generation and increased wholesale off-system electric utility sales. Strong results in our integrated energy business group and electric utility business group were partially offset by losses in our communications business. Unusual energy market conditions stemming primarily from gas and electricity shortages in the West contributed to our strong financial performance in 2001 and 2000. There was an approximately $1.40 and $0.40 contribution to 2001 and 2000 earnings per share, respectively, due to prevailing prices of gas and electricity and unusually wide gas trading margins in the last part of year 2000 and first half of 2001.

Consolidated revenues were $461.9 million in 2001 compared to $292.1 million in 2000. Revenue increased in all segments. Daily volumes of natural gas marketed increased 22 percent from 860,800 million British thermal units per day in 2000 to 1,047,700 million British thermal units in 2001. Prices of financial and physical natural gas marketed decreased from an average of $2.77 per million

British thermal units in 2000 to $2.14 per million British thermal units in 2001.

Earnings in 2001 included a $4.4 million after-tax charge ($0.17 per share) for a financial exposure to Enron Corporation and certain of its subsidiaries now in bankruptcy. The exposure is primarily related to the value of a long-term swap to provide natural gas to a power plant. We have taken action to mitigate this exposure. We are seeking authority to "net," or offset certain obligations with Enron and its subsidiaries, both payable and receivable, among our subsidiaries. If we are successful in these efforts, substantially all of the financial value of the fuel swap could be recovered, and we would not have any remaining exposure to Enron and its bankrupt subsidiaries.

Earnings in 2001 also reflect a $0.12 per share charge for employee stock bonus awards and the funding of a new non-profit foundation to advance our charitable and philanthropic endeavors. Both of these transactions were funded with Black Hills Corporation common stock.

2000 Compared to 1999

Consolidated income from continuing operations for 2000 was $52.8 million, compared to $37.7 million in 1999, or $2.37 per average common share in 2000, compared to $1.76 per average common share in 1999. This equates to a 19.0 percent and 17.1 percent return on year-end common equity in 2000 and 1999, respectively. Income (loss) from discontinued operations was $36,000 in 2000 compared to $(0.7) million or $(0.03) per share in 1999.

Earnings growth in 2000 was primarily due to strong natural gas marketing activity, increased fuel production, expanded power generation and increased wholesale off-system electric utility sales. Strong results in our integrated energy business group were partially offset by losses in our communications business. Unusual energy market conditions stemming primarily from gas and electricity shortages in the West during the last part of 2000 contributed to our strong financial performance. There was an approximately $0.40 contribution to 2000 earnings per share due to higher prevailing prices of gas and electricity and unusually wide gas trading margins.

Consolidated revenues were $292.1 million in 2000 compared to $185.3 million in 1999. The growth in revenues in 2000 was a result of high energy commodity prices and increased volumes of fuel marketed, primarily as a result of extreme price volatility in the western markets, acquisitions and growth in the integrated energy business group and increases in off-system sales by our electric utility. Prices of financial and physical natural gas marketed increased from an average of $1.38 per million British thermal units in 1999 to $2.77 per million British thermal units in 2000.

The following business group and segment information does not include intercompany eliminations.

Integrated Energy Group

	2001	2000	1999
		(in thousands)	

Revenue:			
Energy marketing	$ 83,884	$ 40,204	$ 7,640
Power generation	80,233	20,083	-
Oil and gas	33,408	20,328	13,052
Coal mining	31,800	30,530	31,095
Total revenue	229,325	111,145	51,787
Expenses	126,429	49,957	36,726
Operating income	$ 102,896	$ 61,188	$ 15,061
Net income	$ 57,930	$ 29,379	$ 12,554

The following is a summary of sales volumes of our coal, oil and natural gas production and various measures of power generation:

	2001	2000	1999
Tons of coal sold	3,518,000	3,050,000	3,180,000
Barrels of oil sold	445,500	334,000	318,000
Mcf of natural gas sold	4,619,500	3,274,000	2,791,000
Mcf equivalent sales	7,292,500	5,278,000	4,698,000
MWs of independent power capacity in service	617	250	-
MWs of independent power capacity under construction	364	470	-

The following is a summary of average daily energy marketing volumes:

	2001	2000	1999
Natural gas - MMBtus	1,047,700	860,800	635,500
Crude oil - barrels	36,500	44,300	19,270

2001 Compared to 2000

Net income of our integrated energy group nearly doubled in 2001 compared to 2000. These strong earnings resulted primarily from the unusually high prices of natural gas and high gas trading margins received in western markets during the first half of 2001, an increase in volumes marketed and fuel production, and expanded power generation.

In addition, in 2001, we reached a settlement of ongoing litigation with PacifiCorp concerning rights and obligations under a coal supply agreement under which PacifiCorp purchased coal from our coal mine to meet the coal requirements of the Wyodak Power Plant. As a result of this settlement, we recognized $5.6 million pre-tax non-operating income. In addition, we sold the "North Conveyor System" which resulted in a $2.6 million pre-tax gain. See Note 10 of Notes to Consolidated Financial Statements.

The integrated energy business group's revenues more than doubled to $229 million in 2001 compared to $111 million in 2000. The increase was related to a full year of independent power operations revenues related to the July 2000 acquisition of Indeck Capital and an increase in revenue from fuel production and gas marketing. Daily volumes of natural gas marketed increased 22 percent.

The integrated energy business group's total operating expenses increased 153 percent due to the expanded power production and increased volumes of fuel production and energy marketed. Operating income increased over 68 percent from 2000 levels due to higher production volumes.

2000 Compared to 1999

Net income of our integrated energy group increased 134 percent in 2000 compared to 1999. Operating expenses and operating income increased over 36 percent and 306 percent, respectively. These increases resulted primarily from our gas marketing operations--which experienced a dramatic increase in both trading volumes and margins, a significant increase in fuel production volumes, record fuel and power prices and expanded power generation, including the acquisition of Indeck Capital.

The integrated energy business group's revenues increased 115 percent in 2000 compared to 1999. The revenue increase was a direct result of gas and electricity shortages in the West Coast markets and the closing of the Indeck Capital acquisition. Daily volumes of natural gas marketed increased 35 percent.

Energy Marketing

Our energy marketing companies produced the following results:

	2001	2000	1999
		(in thousands)	
Revenue	$83,884	$40,204	$7,640
Operating income (loss)	53,662	24,113	(1,366)
Net income	34,566	13,973	486

2001 Compared to 2000

Earnings from the energy marketing segment increased $20.6 million due substantially to high gas margins received in the first half of 2001, as well as a 22 percent increase in natural gas average daily volumes marketed in 2001 compared to 2000. Revenues increased 109 percent from 2000 primarily due to higher daily volumes and the high gas margins.

The unusual energy market conditions stemming primarily from natural gas and electricity shortages in California and our ability to capture the higher margins contributed significantly to the strong financial performance.

2000 Compared to 1999

The strong increase in earnings in 2000 compared to 1999 was due to the unusual energy market conditions that existed in the last half of 2000 stemming from the natural gas and electricity shortages in California. Average daily volumes of natural gas marketed increased 35 percent in 2000 compared to 1999.

Power Generation

Our power generation segment produced the following results:

	2001	2000	1999
		(in thousands)	
Revenue	$80,233	$20,083	$ -
Operating income (loss)	27,455	20,374	(157)
Net income (loss)	1,576	3,242	(108)

2001 Compared to 2000

2001 reflects the first full year of operations of our power generation segment and our continued expansion of generation facilities. At December 31, 2001, we owned 617 net megawatts in currently operating plants. Of these 617 net megawatts, approximately 90 percent are under contracts or tolling arrangements with at least one year remaining. At year end, an additional 364 megawatts of generating capacity was under construction. Substantially all of this output will be sold pursuant to existing long-term contracts. The increased production capacity was offset by a $4.4 million after-tax charge for Enron exposure, additional reserves for exposure to western power markets and reduced water flow at hydro power plants in New York.

2000 Compared to 1999

Results from the power generation segment were not significant in 1999. In July 2000, we completed the acquisition of Indeck Capital, representing a significant advancement of our position in the power generation segment. At December 31, 2000, we owned 250 net megawatts of generating capacity in operating plants and had 470 megawatts under construction.

Oil and Gas

Oil and gas operating results were as follows:

	2001	2000	1999
		(in thousands)	
Revenue	$33,408	$20,328	$13,052
Operating income	15,193	7,906	3,978
Net income	10,197	4,992	2,462

The following is a summary of our oil and gas reserves at December 31:

	2001	2000	1999
Barrels of oil (in thousands)	4,055	4,413	4,109
Mcf of natural gas	24,071	18,404	19,460
Total in Mcf equivalents	48,401	44,882	44,114

These reserves are based on reports prepared by Ralph E. Davis Associates, Inc., an independent consulting and engineering firm. Reserves were determined using constant product prices at the end of the respective years. Estimates of economically recoverable reserves and future net revenues are based on a number of variables, which may differ from actual results. We intend to increase our net proved reserves by selectively increasing our oil and gas exploration and development activities and by acquiring producing properties.

2001 Compared to 2000

Record net income in 2001 was primarily a result of a 27 percent increase in the average price received and a 38 percent increase in production volumes. The increase in gas reserves at December 31, 2001 was due to strong drilling results and reserve acquisitions.

In 2001, we acquired the operating and non-operating interests in 74 gas and oil wells located in Colorado and Wyoming from Stewart Petroleum Corporation of Denver, Colorado, for approximately $10 million. The acquired interest in these fuel assets represents approximately 10 billion cubic feet equivalent of natural gas. The acquisition increased our proved reserves by approximately 22 percent (based on year-end 2000 reserve estimates) and our current production rates by 10 percent.

2000 Compared to 1999

The increase in net income in 2000 was primarily the result of record natural gas prices, higher crude oil prices, and a significant increase in production volumes. The increase in economically recoverable oil reserves at December 31, 2000 was due to improved product prices.

Coal Mining

Coal mining results were as follows:

	2001	2000	1999
		(in thousands)	
Revenue	$31,800	$30,530	$31,095
Operating income	6,586	8,795	12,606
Net income	11,591	7,172	9,714

2001 Compared to 2000

Coal mining earnings increased $4.4 million as a result of a coal contract settlement, a gain on the sale of mining equipment and a 15 percent increase in tons sold, partially offset by lower average coal prices due to a coal contract settlement and an increase in mining related expenses. Tons of coal sold increased primarily due to the commencement of sales through our train load-out facility.

In 2001, we reached a settlement of ongoing litigation with PacifiCorp concerning rights and obligations under a coal supply agreement under which PacifiCorp purchased coal from our coal mine to meet the coal requirements of the Wyodak Power Plant. As a result of this settlement, we recognized $5.6 million pre-tax non-operating income. In addition, we sold the "North Conveyor System" which resulted in a $2.6 million pre-tax gain. See Note 10 of Notes to Consolidated Financial Statements.

2000 Compared to 1999

A planned five-week outage at the Wyodak Plant resulted in lower coal sales and earnings in 2000 compared to 1999.

Electric Utility Group

	2001	2000	1999
		(in thousands)	
Revenue	$212,355	$173,308	$133,222
Operating expenses	128,247	105,100	80,936
Operating income	$ 84,108	$ 68,208	$ 52,286
Net income	$ 45,238	$ 37,178	$ 27,362

We currently have a winter peak load of 344 megawatts established in December 1998 and a summer peak of 392 megawatts established in August 2001. We own 395 megawatts of electric utility generating capacity and purchase an additional 65 megawatts under a long-term agreement (decreasing to 60 megawatts in 2002). At December 31, 2001, an additional 40 megawatts of generating capacity was under construction.

2001 Compared to 2000

Electric revenue increased 23 percent in 2001 compared to 2000. The increase in electric revenue in 2001 was primarily due to a 78 percent increase in wholesale off-system sales at an average price that was 27 percent higher than the average price in 2000. The increase in off-system sales was driven by high spot market prices for energy in early 2001, which enabled us to generate more energy from our combustion turbine facilities, including the Neil Simpson combustion turbine, which we placed into commercial operation in June 2000. Megawatt-hours generated from our oil-fired diesel and natural gas-fired combustion turbines were 440,368 in 2001, compared to 305,767 in 2000. Historically, market prices were not sufficient to support the economics of generating from these facilities, except to meet peak demand and as standby use for native load requirements.

Firm kilowatt-hour sales increased 2 percent in 2001. Residential and commercial sales increases of 3 percent in 2001 were partially offset by a slight decrease in industrial sales, primarily due to load reductions at Homestake Gold Mine. Degree days, a measure of weather trends, were 3 percent below normal in 2001 and 4 percent below 2000.

Revenue per kilowatt-hour sold was 7.0 cents in 2001 compared to 6.4 cents in 2000. The number of customers in the service area increased to 59,237 from 58,601 in 2000. The increase in the revenue per kilowatt-hour sold in 2001 is due to a 41 percent increase in wholesale off-system sales to 965,030 megawatt-hours and strong average wholesale power prices.

Electric utility operating expenses increased 22 percent in 2001 primarily due to a 29 percent increase in purchased power costs and a 14 percent increase in the average cost of generation. The increase in the average cost of generation was primarily associated with the operation of certain gas-fired combustion turbines.

In addition, 2001 results include a $2.0 million after-tax non-cash charge related to the contribution of Black Hills Corporation Common Stock to the newly formed Black Hills Corporation Foundation. This Foundation was created to

enhance our longstanding practice of giving back to our communities. Through the Foundation, we may strengthen our service to our valued customers and fellow citizens for generations to come.

2000 Compared to 1999

Electric revenue increased 30 percent in 2000 compared to 1999. The increase in electric revenue in 2000 was primarily due to a 381 percent increase in wholesale off-system sales at an average price that was three times higher than the average price in 1999. The increase in off-system sales was driven by high spot market prices for energy in late 2000, which enabled us to generate more energy from our combustion turbine facilities, including the Neil Simpson combustion turbine, which we placed into commercial operation in June 2000. Megawatt-hours generated from our oil-fired diesel and natural gas-fired combustion turbines were 305,767 in 2000 compared to 25,882 in 1999.

Firm kilowatt-hour sales increased 3 percent. Residential and commercial sales increases of 4 percent were partially offset by a 2 percent decrease in industrial sales, primarily due to load reductions at Homestake Gold Mine. Degree days, a measure of weather trends, were 16 percent above 1999 and 1 percent above normal.

Revenue per kilowatt-hour sold was 6.4 cents in 2000 compared to 5.4 cents in 1999. The number of customers in the service area increased to 58,601 in 2000 from 57,709 in 1999. The increase in the revenue per kilowatt-hour sold in 2000 is due to a 54 percent increase in wholesale off-system sales to 684,378 megawatt-hours and robust wholesale power prices.

Electric utility operating expenses increased by 30 percent in 2000 primarily due to increased fuel, purchased power, and operating and maintenance expenses, partially offset by lower depreciation. Fuel expense in 2000 included the cost associated with the additional combustion turbine generation.

Communications Group

	2001	2000	1999
		(in thousands)	
Revenue - external*	$ 20,258	$ 7,689	$ 278
Revenue - intersegment*	4,250	3,682	3,145
Operating expenses	37,758	23,857	7,070
Operating loss	$(13,250)	$ (12,486)	$ (3,647)
Net loss	$(12,300)	$ (11,382)	$ (968)

*External revenue is revenue from our broadband communications business. Intersegment revenue is primarily revenue from our information services company derived from providing services to our other business segments. This intersegment revenue and associated expenses are eliminated in the consolidation process.

2001	2000	1999

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Residential customers	15,660	8,368	143
Business customers	2,250	646	110
Fiber optic backbone miles	242	210	200
Hybrid fiber coaxial cable miles	737	588	100

In September 1998, we formed our broadband communications business to provide facilities-based communications services for Rapid City and the northern Black Hills of South Dakota. As of December 31, 2001, we had invested approximately $125 million in state-of-the-art technology that offers local and long distance telephone service, expanded cable television service, Internet access, and high-speed data and video services. We began serving communications customers in late 1999 and market our services to schools, hospitals, cities, economic development groups, and business and residential customers. The build-out is approximately 85 percent complete at December 31, 2001. Losses are expected to continue as we proceed with building the network and increasing the customer base. We expect our communications group will sustain approximately $7.0 million in net losses in 2002, with annual losses decreasing thereafter and profitability expected by 2004. The recovery of capital investment and future profitability are dependent primarily on our ability to attract new customers. If we are unable to attract additional customers or technological advances make our network obsolete, we could have a material write-down of assets.

2001 Compared to 2000

Our customer base nearly doubled in 2001 to 15,660 residential customers and 2,250 business customers. The increase in revenues from a larger customer base in 2001 was partially offset by increases in reserves for inventory and carrier billings and increased interest expense. Operating expense increased due to the expansion of the business. Operating performance in 2001 was in line with our expectations.

2000 Compared to 1999

Operating losses in 2000 were attributable to increased interest, depreciation and operating expenses. Operating losses in 1999 were primarily due to start-up organizational costs, increased depreciation expense and increased interest expense associated with the capital deployment.

Safe Harbor for Forward Looking Information

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Reform Act), we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) made by or on behalf of the Company in this Current Report on Form 8-K, our Annual Report on Form 10-K, Annual Report, Quarterly Report on Form 10-Q, and presentations, or in response to questions or otherwise. These statements concern our plans, expectations and objectives for future operations. All statements, other than statements of historical fact that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements.

These forward-looking statements are based on assumptions, which we believe are reasonable based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from those contained in the forward-looking statements, including among other things:

- unanticipated developments in the western power markets, including unanticipated governmental intervention, deterioration in the financial condition of counterparties, default on amounts due from counterparties, adverse changes in current or future litigation, adverse changes in the tariffs of the California Independent System Operator, market disruption and adverse changes in energy and commodity supply, volume and pricing and interest rates;
- prevailing governmental policies and regulatory actions, with respect to allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and other capital investments, and present or prospective wholesale and resale competition;
- the State of California's efforts to reform its long-term power purchase contracts and recover refunds for alleged price manipulation;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- population growth and demographic patterns;
- competition for retail and wholesale customers;
- pricing and transportation of commodities;
- market demand, including structural market changes;
- changes in tax rates or policies or in rates of inflation;
- changes in project costs;
- unanticipated changes in operating expenses or capital expenditures;
- capital market conditions;
- technological advances by competitors;
- competition for new energy development opportunities;
- legal and administrative proceedings that influence our business and profitability;
- the effects on our business, including the availability of insurance, resulting from the terrorist actions on September 11, 2001, or any other terrorist actions or responses to such actions;
- the effects on our business resulting from the financial difficulties of Enron and other energy companies, including their effects on liquidity in the trading and power industry, and their effects on the capital markets views of the energy or trading industry, and our ability to access the capital markets on the same favorable terms as in the past;

- the effects on our business in connection with a lowering of our credit rating (or actions we may take in response to changing credit ratings criteria), including, increased collateral requirements to execute our business plan, demands for increased collateral by our current counterparties, refusal by our current or potential counterparties or customers to enter into transactions with us and our inability to obtain credit or capital in amounts or on terms favorable to us; and

- other factors discussed from time to time in our filings with the SEC.

Any forward-looking statement speaks only as to the date on which that statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of an anticipated event. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Black Hills Corporation

We have audited the accompanying consolidated balance sheets of Black Hills Corporation (a South Dakota corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, common stockholders' equity and cash flows for the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Black Hills Corporation and Subsidiaries as of December 31, 2001, and 2000, and the results of their operations and their cash flows for each of the years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, which changed its method of accounting for certain commodity contracts and other derivatives.

DELOITTE & TOUCHE, LLP

Minneapolis, Minnesota,
November 15, 2002

BLACK HILLS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31,	2001	2000
	(in thousands, except per sh	
Operating revenues	$461,938	$292,142
Operating expenses:		
Fuel and purchased power	86,245	60,302
Operations and maintenance	65,556	46,054
Administrative and general	78,339	43,318
Depreciation, depletion and amortization	53,811	32,624
Taxes, other than income taxes	22,993	14,904
	306,944	197,202
Equity in earnings of unconsolidated subsidiaries	14,776	20,149
Operating income	169,770	115,089
Other income (expense):		
Interest expense	(39,479)	(30,136)
Interest income	2,372	7,067
Other expense	(4,759)	(2,278)
Other income	14,016	4,685
	(27,850)	(20,662)
Income from continuing operations before minority interest and income taxes	141,920	94,427
Minority interest	(4,186)	(11,273)
Income taxes	(50,150)	(30,342)

Income from continuing operations	87,584	52,812
Income (loss) from discontinued operations, net of taxes	493	36
Net income	88,077	52,848
Preferred stock dividends	(527)	(78)
Net income available for common stock	$ 87,550	$ 52,770
Earnings per share of common stock:		
Basic-		
Continuing operations	$ 3.43	$ 2.39
Discontinued operations	0.02	-
Total	$ 3.45	$ 2.39
Diluted-		
Continuing operations	$ 3.40	$ 2.37
Discontinued operations	0.02	-
Total	$ 3.42	$ 2.37
Weighted average common shares outstanding:		
Basic	25,374	22,118
Diluted	25,771	22,281

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

BLACK HILLS CORPORATION
CONSOLIDATED BALANCE SHEETS

At December 31,	2001
	(in thousands, ex
ASSETS	
Current assets:	
Cash and cash equivalents	$ 29,956
Securities available-for-sale	3,550
Receivables (net of allowance for doubtful accounts of $5,913 and $3,631, respectively)	110,831
Derivative assets	38,144
Other assets	29,992
Assets of discontinued operations	10,090
	222,563

Investments	59,895
Property, plant and equipment	1,564,664
Less accumulated depreciation and depletion	(328,325)
	1,236,339
Other assets:	
Derivative assets	6,407
Goodwill	28,693
Intangible assets	86,528
Other	18,342
	139,970
	$1,658,767
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 96,218
Accrued liabilities	39,085
Current maturities of long-term debt	35,904
Notes payable	360,450
Derivative liabilities	42,681
Liabilities of discontinued operations	8,820
	583,158
Long-term debt, net of current maturities	415,798
Deferred credits and other liabilities:	
Federal income taxes	75,302
Derivative liabilities	7,119
Other	42,693
	125,114
Minority interest in subsidiaries	19,533
Commitments and contingencies (Notes 10, 11, 15 and 18)	
Stockholders' equity:	
Preferred stock - no par Series 2000-A; 21,500 shares authorized; issued and outstanding: 5,177 shares in 2001, 4,000 shares in 2000	5,549
Common stock equity-	
Common stock $1 par value; 100,000,000 shares authorized; issued: 26,890,943 shares in 2001 and 23,302,111 shares in 2000	26,891
Additional paid-in capital	240,454
Retained earnings	250,515
Treasury stock, at cost	(4,503)
Accumulated other comprehensive loss	(3,742)
	509,615
Total stockholders' equity	515,164

$1,658,767
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The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

BLACK HILLS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2001	2000
		(in thousand
Operating activities:		
Net income available for common	$87,550	$52,770
Principal non-cash items-		
(Income) loss from discontinued operations	(493)	(36
Depreciation, depletion and amortization	53,811	32,624
Issuance of treasury stock for operating expenses (Note 4)	4,243	-
Provision for valuation allowances	9,632	3,232
Net change in derivative assets and liabilities	2,498	(1,422
Gain on sales of assets	(2,587)	(3,736
Deferred income taxes and investment tax credits	9,792	1,937
Undistributed earnings in associated companies	(9,287)	(3,672
Minority interest	4,186	11,273
Change in operating assets and liabilities-		
Accounts receivable and other current assets	176,974	(208,078
Accounts payable and other current liabilities	(157,061)	181,058
Other, net	(852)	1,691
	178,406	67,641
Investing activities:		
Property, plant and equipment additions	(378,465)	(134,855
Payment for acquisition of net assets, net of cash acquired	(199,001)	(28,688
Payment for acquisition of minority interest	(16,676)	-
Increase in investments	(471)	(9,974
Proceeds from sales of assets	2,900	5,500
Available-for-sale securities purchased	-	-
Available-for-sale securities sold	-	4,660
	(591,713)	(163,357
Financing activities:		
Dividends paid on common stock	(28,517)	(23,527
Treasury stock issued (purchased)	321	(1,037
Common stock issued	168,522	3,854
Increase in short-term borrowings, net	149,450	75,998
Long-term debt - issuance	144,610	60,082
Long-term debt - repayments	(13,960)	(1,330
Subsidiary distributions to minority interests	(1,453)	(10,900

	418,973	103,140
Increase in cash and cash equivalents	5,666	7,424
Cash and cash equivalents:		
Beginning of year	24,290	16,866
End of year	$ 29,956	$ 24,290
Supplemental disclosure of cash flow information:		
Cash paid during the period for-		
Interest	$ 39,563	$ 31,094
Income taxes	$ 40,374	$ 18,880
Noncash net assets acquired through issuance of common and preferred stock (Note 15)	$ 3,628	$ 34,493

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

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BLACK HILLS CORPORATION
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In	Retained	Treasury S
	Shares	Amount	Capital	Earnings	Shares
	(in thousands)				
Balance at December 31, 1998	21,719	$ 21,719	$ 40,254	$ 147,774	141
Comprehensive Income:					
Net income	-	-	-	37,067	-
Total comprehensive income	-	-	-	37,067	-
Dividends on common stock	-	-	-	(22,602)	-
Issuance of common stock	20	20	404	-	-
Treasury stock acquired, net	-	-	-	-	227
Balance at December 31, 1999	21,739	21,739	40,658	162,239	368
Comprehensive Income:					

Net income	-	-	-	52,848	-
Other comprehensive income, net of tax:					
Unrealized loss on available for sale securities	-	-	-	-	-
Total comprehensive income	-	-	-	52,848	-
Dividends on preferred stock	-	-	-	(78)	-
Dividends on common stock	-	-	-	(23,527)	-
Issuance of common stock	1,563	1,563	32,784	-	-
Treasury stock acquired, net	-	-	-	-	13
Balance at December 31, 2000	23,302	23,302	73,442	191,482	381
Comprehensive Income:					
Net income	-	-	-	88,077	-
Other comprehensive income, net of tax:					
Unrealized gain on available for sale securities	-	-	-	-	-
Initial impact of adoption of SFAS 133, net of minority interest	-	-	-	-	-
Fair value adjustment on derivatives designated as cash flow hedges, net of minority interest	-	-	-	-	-
Total comprehensive income	-	-	-	88,077	-
Dividends on preferred stock	-	-	-	(527)	-
Dividends on common stock	-	-	-	(28,517)	-
Issuance of common stock	3,589	3,589	167,012	-	-
Treasury stock issued, net	-	-	-	-	(142)
Balance at December 31, 2001	26,891	$ 26,891	$ 240,454	$ 250,515	239

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

BLACK HILLS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999

(1) BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description

Black Hills Corporation and its subsidiaries operate in three primary operating groups: non-regulated integrated energy, regulated electric utility and communications. The Company operates its integrated energy businesses through its direct and indirect subsidiaries: Wyodak Resources related to coal, Black Hills Exploration and Production related to oil and natural gas, Enserco Energy and Black Hills Energy Resources related to energy marketing of natural gas and oil, respectively, and Black Hills Energy Capital and its subsidiaries and Black Hills Generation related to independent power activities, all aggregated for reporting purposes as Black Hills Energy (formerly Black Hills Energy Ventures); operates its public utility electric operations through its subsidiary, Black Hills Power, Inc.; and operates its communications operations through its indirect subsidiaries Black Hills Fiber Systems, Black Hills FiberCom L.L.C. and Daksoft. For further descriptions of the Company's business segments, see Note 14.

In 2002, the Company decided to sell its coal marketing business. The non-strategic assets were sold effective August 1, 2002.

In December 2000, the Company effected a holding company structure under the renamed holding company, Black Hills Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to allowance for uncollectable accounts receivable, inventory obsolescence, realization of market value of derivatives due to commodity risk, intangible asset valuations and useful lives, proved oil and gas reserve volumes, employee benefit plans, environmental accruals and contingencies. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Black Hills Corporation and its wholly owned and majority-owned subsidiaries and certain subsidiaries in which the Company's ownership interest may be less than 50 percent but represents voting control. Generally, the Company uses equity accounting for investments of which it owns between 20 and 50 percent and investments in partnerships under 20 percent if the Company exercises significant influence.

All significant intercompany balances and transactions have been eliminated in consolidation except for revenues and expenses associated with intercompany fuel sales to the Company's regulated subsidiary, Black Hills Power, Inc. in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). Total intercompany fuel sales not eliminated were $11.2 million, $9.7 million and $7.7 million in 2001, 2000 and 1999, respectively.

The Company owns 51 percent of the voting securities of Black Hills FiberCom, LLC (FiberCom). During 2000, FiberCom's operating losses reduced its unaffiliated members' equity below zero. At that point, the Company began to fund all operations and recognize 100 percent of FiberCom's operating losses and will continue to do so until such time as additional equity investments are made by third parties or future net income restores the Company's equity to a positive amount.

As discussed in Note 15, the Company and its subsidiaries made several acquisitions during 2001 and 2000. The Company's consolidated statements of income include operating activity of these companies beginning with their acquisition date.

The Company uses the proportionate consolidation method to account for its working interests in oil and gas properties.

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Minority Interest in Subsidiaries

Minority interest in the accompanying Consolidated Statements of Income represents the share of income or loss of certain consolidated subsidiaries attributable to the minority shareholders of those subsidiaries. The minority interest in the accompanying Consolidated Balance Sheets reflect the amount of the underlying net assets of those certain consolidated subsidiaries attributable to the minority shareholders in those subsidiaries.

Regulatory Accounting

The Company's subsidiary, Black Hills Power, is subject to regulation by various state and federal agencies. The accounting policies followed are generally subject to the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC). These accounting policies differ in some respects from those used by the Company's non-regulated businesses.

Black Hills Power follows the provisions of SFAS 71, and its financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating Black Hills Power. As a result of Black Hills Power's 1995 rate case settlement, a 50-year depreciable life for the Neil Simpson II plant is used for financial reporting purposes. If Black Hills Power were not following SFAS 71, a 35 to 40 year life would be more appropriate, which would increase depreciation expense by approximately $0.6 million per year. If rate recovery of generation-related costs becomes unlikely or uncertain, due to competition or regulatory action, these accounting standards may no longer apply to Black Hills Power's generation operations. In the event Black Hills Power determines that it no longer meets the criteria for following SFAS 71, the accounting impact to the Company could be an extraordinary non-cash charge to operations of an amount that could be material. Criteria that give rise to the discontinuance of SFAS 71 include increasing competition that could restrict Black Hills Power's ability to establish prices to recover specific costs and a significant change in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews these criteria to ensure that the continuing application of SFAS 71 is appropriate.

At December 31, 2001 and 2000, the Company had regulatory assets of $4.1 million. The Company also had regulatory liabilities of $4.2 million and $4.7 million at December 31, 2001 and 2000, respectively. The regulatory assets are included in Other assets and the regulatory liabilities are included in Other deferred credits and other liabilities on the Consolidated Balance Sheets.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of

three months or less to be cash equivalents.

Securities Available-for-Sale

The Company has investments in marketable securities that are classified as available-for-sale securities and are carried at fair value in accordance with the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The unrealized gain or loss each period resulting from the changes in the securities' fair value is included as a component of accumulated other comprehensive income in common stockholders' equity.

Inventory

Materials, supplies and fuel are generally stated at the lower of cost or market on a first-in, first-out basis. During 2001, 2000 and 1999, provisions of $1.4 million, $1.5 million and $0, respectively, were charged to operations to write-down inventories at the Company's communications group to estimated net realizable value. Natural gas and oil inventories held in energy marketing companies are stated at market.

Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost when placed in service. Included in the cost of regulated construction projects is an allowance for funds used during construction (AFUDC) which represents the approximate composite cost of borrowed funds and a return on capital used to finance the project. The AFUDC was computed at an annual composite rate of 10.2, 9.7 and 10.0 percent during 2001, 2000 and 1999, respectively. In addition, the Company capitalizes interest, when applicable, on certain non-regulated construction projects. The amount of AFUDC and interest capitalized was $7.5 million, $2.0 million and $1.2 million in 2001, 2000 and 1999, respectively. The cost of regulated electric property, plant and equipment retired, or otherwise disposed of in the ordinary course of business, together with removal cost less salvage, is charged to accumulated depreciation. Retirement or disposal of all other assets, except for oil and gas properties as described below, result in gains or losses recognized as a component of income. Repairs and maintenance of property are charged to operations as incurred.

Depreciation provisions for regulated electric property, plant and equipment is computed on a straight-line basis resulting in an annual composite rate of 3.0 percent in 2001, 2.8 percent in 2000 and 3.1 percent in 1999. Non-regulated property, plant and equipment are depreciated on a straight-line basis using estimated useful lives ranging from 3 to 39 years. Capitalized coal mining costs and coal leases are amortized on a unit-of-production method on volumes produced and estimated reserves.

Goodwill and Intangible Assets

Goodwill represents the excess of acquisition costs over the fair value of the net assets of acquired businesses and through 2001 was amortized on a straight-line basis over the estimated useful lives of such assets, which ranged from 8 to 25 years. The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives. Amortization expense was

$3.8 million, $2.9 million and $3.3 million in 2001, 2000 and 1999, respectively. Accumulated amortization was $10.0 million, $6.1 million and $0.7 million at December 31, 2001, 2000 and 1999, respectively.

Impairment of Long-Lived Assets and Intangible Assets

The Company periodically evaluates whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of its long-lived assets. If such events or circumstances were to indicate that the carrying amount of these assets was not recoverable, the Company would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) was less than the carrying amount of the long-lived assets, the Company would recognize an impairment loss. No impairment loss was recorded during 2001, 2000 or 1999.

Oil and Gas Operations

The Company accounts for its oil and gas activities under the full cost method. Under the full cost method, all costs related to acquisition, exploration and development drilling activities are capitalized. These costs are amortized using a unit-of-production method based on volumes produced and proved reserves. Any conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of the properties with no gain or loss recognized.

Under the full cost method, net capitalized costs are subject to a "ceiling test" which limits these costs to the present value of future net cash flows discounted at 10 percent, net of related tax effects, plus the lower of cost or fair value of unproved properties included in the net capitalized costs. Future net cash flows are estimated based on end-of-period spot market prices adjusted for contracted price changes. If the net capitalized costs exceed the full cost "ceiling" at period end, a permanent noncash write-down would be charged to earnings in that period unless known subsequent market price changes eliminate or reduce the indicated write-down. Given the volatility of oil and gas prices, the Company's estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that a write-down of oil and gas properties could occur in the future. No "ceiling test" write-downs were recorded during 2001, 2000 or 1999.

Income Taxes

The Company and its subsidiaries file consolidated federal income tax returns. Income taxes for consolidated subsidiaries are allocated to the subsidiaries based on separate company computations of taxable income or loss.

The Company uses the liability method in accounting for income taxes. Under the liability method, deferred income taxes are recognized, at currently enacted income tax rates, to reflect the tax effect of temporary differences between the financial and tax basis of assets and liabilities. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements. The Company classifies deferred

tax assets and liabilities into current and noncurrent amounts based on the classification of the related assets and liabilities.

Revenue Recognition

Generally, revenue is recognized when there is persuasive evidence of an arrangement with a fixed or determinable price, delivery has occurred or services have been rendered, and collectibility is reasonably assured. Energy marketing businesses also use the mark-to-market method of accounting. Under that method, all energy trading activities are recorded at fair value as of the balance sheet date and net gains or losses resulting from the revaluation of these contracts to fair value are recognized currently in the results of operations. For long-term non-utility power sales agreements, revenue is generally recognized as the lower of the amount billed or at the average rate expected over the life of the agreement.

Earnings Per Share of Common Stock

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each year. Diluted earnings per share is computed under the treasury stock method and is calculated to compute the dilutive effect primarily resulting from outstanding stock options and conversion of preferred shares. A reconciliation of Income from continuing operations and basic and diluted share amounts is as follows (in thousands):

	2001		2000	
	Income	Average Shares	Income	Averag Share
Income from continuing operations	$87,584		$52,812	
Less: preferred stock dividends	(527)		(78)	
Basic - available for common shareholders	87,057	25,374	52,734	22,
Dilutive effect of:				
Stock options	-	223	-	
Convertible preferred stock	527	148	78	
Others	-	26	-	
Diluted - available for common shareholders	$87,584	25,771	$52,812	22,

Reclassifications

Realized and unrealized gains and losses under energy trading contracts in the energy marketing segment have been reclassified to be presented on a net basis in Operating revenues on the accompanying Condensed Consolidated Statements of Income in accordance with Emerging Issues Task Force (EITF) Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." If the Company had reported these items on a gross basis, both operating revenues and fuel and purchased power costs would have been $1.0 billion, $1.3 billion and $0.6 billion higher for 2001, 2000 and 1999, respectively. The net presentation of these items rather than a gross presentation has no impact on operating income or net income.

Certain 2000 and 1999 amounts in the consolidated financial statements have been reclassified to conform to the 2001 presentation. These reclassifications had no effect on the Company's common stockholders' equity or results of operations, as previously reported.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Intangible assets with a defined life will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company was required to adopt SFAS 142 effective January 1, 2002. The cumulative effect of the change in accounting principle, net of tax at January 1, 2002, was a $896,000 benefit.

The pro forma effects of adopting SFAS 142 are as follows (in thousands, except per share amounts):

	2001	2000	1999
Net income as reported	$ 88,077	$ 52,848	$ 37,067
Add goodwill amortization	1,499	1,394	2,523
Adjusted net income	$ 89,576	$ 54,242	$ 39,590

	2001	2000	1999
Basic earnings per share	$ 3.45	$ 2.39	$ 1.73
Add goodwill amortization	0.06	0.06	0.12
Adjusted basic earnings per share	$ 3.51	$ 2.45	$ 1.85
Diluted earnings per share	$ 3.42	$ 2.37	$ 1.73
Add goodwill amortization	0.06	0.06	0.12
Adjusted diluted earnings per share	$ 3.48	$ 2.43	$ 1.85

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred with the associated asset retirement costs being capitalized as part of the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Management expects to adopt SFAS 143 effective January 1, 2003

and is currently evaluating the effects adoption will have on the Company's consolidated financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes FASB Statement 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121) and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30). SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale as well as resolves implementation issues related to SFAS 121. The Company was required to adopt SFAS 144 effective January 1, 2002. Adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Change in Accounting Principle - Derivatives and Hedging Activities

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS 133 allows hedge accounting for fair value and cash flow hedges. SFAS 133 provides that the gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk be recognized currently in earnings in the same accounting period. SFAS 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings.

SFAS 133 requires that on date of initial adoption, an entity shall recognize all freestanding derivative instruments in the balance sheet as either assets or liabilities and measure them at fair value. The difference between a derivative's previous carrying amount and its fair value shall be reported as a transition adjustment. The transition adjustment resulting from adopting this Statement shall be reported in net income or other comprehensive income, as appropriate, as the effect of a change in accounting principle in accordance with paragraph 20 of Accounting Principles Board Opinion No. 20 (APB 20), "Accounting Changes."

On January 1, 2001, the Company adopted SFAS 133. Upon adoption, most of the Company's energy marketing activities previously accounted for under Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities" (EITF 98-10) fell under the purview of SFAS 133. The effect of adoption on the energy marketing companies and risk management

activities was not material because, unless otherwise noted, the energy marketing companies did not designate their risk management activities as hedge instruments. This "no hedge" designation resulted in these derivatives being measured at fair value and gains and losses recognized currently in earnings. This treatment under SFAS 133 was comparable to the accounting under EITF 98-10.

At January 1, 2001, the Company had certain non-trading energy contracts and interest rate swaps documented as cash flow hedges. These contracts were defined as derivatives under SFAS 133 and met the requirements for cash flow hedges. Because these contracts were documented as hedges prior to adoption, the transition adjustment was reported in accumulated other comprehensive income. The aggregated entry for these derivatives identified as cash flow hedges increased derivative assets by $0.9 million, increased the derivative liabilities by $11.2 million and decreased accumulated other comprehensive income by $10.3 million pre-tax and before minority interests.

(2) RISK MANAGEMENT ACTIVITIES

The Company's operations and financial results are impacted by numerous factors including, but not limited to, commodity price risk, interest rate risk and counterparty risk. The Company is exposed to commodity price variability in nearly all core energy marketing and trading businesses. In addition, fuel requirements at its gas-fired generation and its natural long position in crude oil and natural gas production introduce additional commodity price risk.

Energy Marketing Activities

The Company markets natural gas and crude oil in specific areas of the United States and Canada. The Company offers wholesale energy marketing and price risk management products and services to a variety of customers. These activities subject the Company to numerous risks including commodity price risk.

The Company has adopted Risk Management Policies and Procedures (RMP&P) covering all marketing activities. The RMP&P have been approved by the Company's Board of Directors and are routinely reviewed by the Audit Committee of the Board of Directors. The RMP&P include, but are not limited to, trader limits, position limits and credit exposure limits.

The Company employs risk management methods to mitigate its commodity price risk. As a general policy, the Company only permits speculation with limited "open" positions as defined in the RMP&P. Therefore, substantially all of its marketing activities are fully hedged or back-to-back positions; in other words, each sale is matched with a purchase.

To maintain compliance with the RMP&P and mitigate its commodity price risk, the Company routinely utilizes fixed price forward purchase and sales contracts and over-the-counter swaps and options. The Company attempts to balance its fixed price physical and financial purchase and sale commitments in terms of volume and timing of performance and delivery obligations. However, the Company may at times have a bias in the market, within established guidelines, resulting from the management of its portfolio. In addition, the Company may, at times, be unable to fully hedge its portfolio for certain market risks as a result of marketplace illiquidity and other factors.

The Company's energy marketing operations are accounted for under mark-to-market accounting. The Company records its fair values as either Derivative assets and/or Derivative liabilities on the accompanying Consolidated Balance Sheet. The net gains or losses are recorded as Revenues in the accompanying

Consolidated Statements of Income.

The contract or notional amounts and terms of the Company's derivative commodity instruments held for trading purposes at December 31, 2001 and 2000, are set forth below:

	2001		2000	
(thousands of MMBtu's)	Notional Amounts	Maximum Term in Years	Notional Amounts	Maxi Term in
Natural gas basis swaps purchased	9,882	1	25,578	
Natural gas basis swaps sold	10,696	1	26,060	
Natural gas fixed-for-float swaps purchased	10,646	2	6,476	
Natural gas fixed-for-float swaps sold	11,815	2	7,361	
Natural gas swing swaps purchased	465	1	-	
Natural gas swing swaps sold	930	1	-	
Natural gas physical purchases	13,159	1	-	
Natural gas physical sales	19,339	1	-	
(thousands of barrels)				
Crude oil purchased	3,139	1	2,186	
Crude oil sold	3,142	1	2,530	

As required under SFAS 133, derivatives and energy trading activities were marked to fair value on December 31, 2001, and the gains and/or losses recognized in earnings. The amounts related to the accompanying Consolidated Balance Sheets and Statements of Income as of December 31, 2001 and 2000, are as follows (in thousands):

December 31, 2001	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Unrealized Gain
Natural gas	$29,755	$ 661	$25,437	$ 953	$4,026
Crude Oil	6,267	-	5,497	-	770
	$36,022	$ 661	$30,934	$ 953	$4,796
December 31, 2000					
Natural gas	$61,008	$ 391	$56,968	$ 3,532	$ 899
Crude oil	1,523	-	1,000	-	523
	$62,531	$ 391	$57,968	$ 3,532	$1,422

At December 31, 2001, the Company had a mark to fair value unrealized gain of $4.8 million for its energy marketing activities. Of this amount, $5.1 million was current and $(0.3) million was non-current. The current portion of unrealized gains is associated with back to back transactions in which each sale is matched to a purchase. The Company anticipates that substantially all of the current portion of unrealized gains for these transactions will be realized during the next twelve months. Conversely, estimated and actual realized gains or losses related to open positions will likely change during 2002 as market prices change from the December 31, 2001 estimates.

Non-trading Energy Activities

The Company produces natural gas and crude oil through its exploration and production activities. These natural long positions, or unhedged open positions, introduce commodity price risk and variability in cash flows for the Company. The Company employs risk management methods to mitigate this commodity price risk and preserve its cash flows. The Company has adopted guidelines covering hedging for its natural gas and crude oil production. These guidelines have been approved by the Company's Board of Directors and are routinely reviewed by its Audit Committee.

To mitigate commodity price risk and preserve cash flows, the Company uses over-the-counter swaps and options. These derivative instruments fall under the purview of SFAS 133 and the Company elects to utilize hedge accounting as allowed under this Statement.

At December 31, 2001, the Company had a portfolio of swaps to hedge portions of its crude oil and natural gas production. These transactions were previously identified as cash flow hedges, properly documented, and met prospective effectiveness testing. At year-end, these transactions met retrospective effectiveness testing criteria and retained their cash flow hedge status.

At December 31, 2001, the derivatives were marked to fair value and were recorded in Derivative assets or Derivative liabilities on the accompanying Consolidated Balance Sheets. The effective portion of the gain or loss on these derivatives was reported in other comprehensive income and the ineffective portion was reported in earnings.

On January 1, 2001 (the transition adjustment date for SFAS 133 adoption) and December 31, 2001, the Company had the following swaps and related balances (in thousands):

	Notional*	Maximum Terms in Years	Current Assets	Non-current Assets	Current Liabilities	Non-c Liabi
January 1, 2001						
Crude oil swaps	294,000	2	$ 33	$ 151	$ -	$
Crude oil options	120,000	1	472	-	-	
Natural gas swaps	1,581,000	1	-	-	3,411	
			$ 505	$ 151	$3,411	$
December 31, 2001						

Crude oil swaps	90,000	1	$ 529	$ -	$ -	$
Natural gas swaps	1,216,000	1	1,593	-	-	
			$ 2,122	$ -	$ -	$

*crude in bbls, gas in MMBtu's

Most of the Company's crude oil and natural gas hedges are highly effective, resulting in very little earnings impact prior to realization. During 2001, the Company recorded $0.1 million earnings due to ineffectiveness for certain natural gas swaps due to basis risk.

All existing hedges at December 31, 2001 expire during the year ended December 31, 2002. The unrealized earnings gains or losses currently recorded in accumulated other comprehensive income are expected to be realized in earnings during 2002. Based on December 31, 2001 market prices, $2.0 million will be realized and reported in earnings during 2002. These estimated realized gains for 2002 were calculated using December 31, 2001 market prices. Estimated and actual realized gains will likely change during 2002 as market prices change.

In addition, the Company acquired several natural gas swaps when it completed the Las Vegas Cogeneration acquisition on August 31, 2001 (Note 15). The project has a long-term fixed price power sales agreement and an index-priced natural gas purchase contract for 5,000 MMBtus per day through April 30, 2010. These swaps fix the long-term purchase price of the index-priced natural gas purchase contract. At acquisition close, the fair value of these swaps was $6.0 million. These swaps were executed with Enron North America Corp. (Enron), which is currently in bankruptcy proceedings.

These swaps are derivatives under SFAS 133. The Company elected to treat these derivatives as cash flow hedges so that any gains or losses on the fair values of the swaps could be deferred and subsequently recognized when the underlying hedged natural gas was consumed in the plant. The swaps were properly documented and met the criteria for cash flow hedges.

During the fourth quarter of 2001, the Company determined that it was probable that Enron would default on its obligations to the Company in conjunction with these swaps. Upon that determination, the Company ceased to account for these swaps as cash flow hedges. In addition, the Company recognized a $6.0 million pre-tax charge to income in recognition of Enron's probable performance default and resulting consequence that the Company would not receive payment for these amounts.

Financing Activities

The Company engages in activities to manage risks associated with changes in interest rates. The Company has entered into floating-to-fixed interest rate swap agreements to reduce its exposure to interest rate fluctuations associated with its floating rate debt obligations. At December 31, 2001, these hedges met effectiveness testing criteria and retained their cash flow hedge status. At December 31, 2001, the Company had $291.4 million of notional amount floating-to-fixed interest rate swaps, having a maximum term of five years and a

fair value of $(14.4) million. These hedges are substantially effective and any ineffectiveness was immaterial.

In addition to the above interest rate swaps, the Company has entered into a $100 million forward starting floating-to-fixed interest rate swap to hedge the anticipated floating rate debt financing related to the Company's Las Vegas Cogeneration expansion. At December 31, 2001, the swap had a fair market value of $2.3 million. This swap terminated during the second quarter 2002 and resulted in a $1.1 million gain. This swap was treated as a cash flow hedge and accordingly in the second quarter of 2002 the resulting gain was carried in Accumulated Other Comprehensive Income and was to be amortized over the life of the anticipated long-term financing. In the third quarter of 2002, this cash flow hedge was determined to be ineffective due to uncertainties about the eventual timing and form of financing for this project. As a result, $1.1 million was taken into earnings. The gain was offset by the expensing of approximately $1.0 million of deferred financing costs related to the anticipated financing.

At December 31, 2001, the Company had $655.8 million of outstanding, floating rate debt, of which $364.4 million was not offset with interest rate swaps transactions that effectively convert the debt to fixed rate.

On January 1, 2001 (the transition adjustment date for SFAS 133 adoption) and on December 31, 2001, the Company's interest rate swaps and related balances were as follows (in thousands):

	Current Notional Amount	Weighted Average Fixed Interest Rate	Maximum Terms in Years	Current Assets	Non-current Assets	Current Liabilities
January 1, 2001						
Swaps on project financing	$127,416	7.38%	5	$ -	$ 265	$ 2,440
December 31, 2001						
Swaps on project financing	$316,397	5.85%	4	$ -	$5,746	$10,212
Swaps on corporate debt	75,000	4.45%	3	-	-	1,535
Total	$391,397			$ -	$5,746	$11,747

The Company anticipates a portion of unrealized losses recorded in accumulated

other comprehensive income will be realized as increased interest expense in 2002. Based on December 31, 2001 market interest rates, $11.7 million will be realized as additional interest expense during 2002. Estimated and realized amounts will likely change during 2002 as market interest rates change.

Credit Risk

Credit risk relates to the risk of financial loss resulting from non-performance of contractual obligations by a counterparty. The Company maintains credit policies with regards to its counterparties that the Company believes limit its overall credit risk.

For its energy marketing, energy production and risk management activities, the Company attempts to mitigate its credit risk by conducting a majority of its business with investment grade companies, obtaining netting agreements where possible and securing its exposure with less creditworthy counterparties through parental guarantees, prepayments and letters of credit.

At the end of the year, the Company's credit exposure (exclusive of regulated retail customers and communications) was concentrated with investment grade companies. Approximately 85 percent of the Company's credit exposure was with investment grade companies. For the 15 percent credit exposure with non-investment grade rated counterparties, approximately 60 percent of this exposure was supported through letters of credit, prepayments, parental guarantees or asset liens.

(3) INVESTMENTS IN ASSOCIATED COMPANIES

Included in Investments on the Consolidated Balance Sheets are the following investments that have been recorded on the equity method of accounting:

- A 33.33 percent interest (see Note 18) in Millennium Pipeline Company, L.P., a Texas limited partnership, which owns and operates an oil pipeline in the Gulf Coast region of Texas. The Company has a carrying amount in the investment of $7.0 million and $6.9 million as of December 31, 2001 and 2000, respectively. The partnership had assets of $23.8 million and $22.0 million, liabilities of $2.8 million and $1.0 million as of December 31, 2001 and 2000, and net income of $3.4 million and $2.8 million during 2001 and 2000, respectively.

- A 12.6 percent, 6.9 percent and 5.3 percent interest in Energy Investors Fund, L.P., Energy Investors Fund II, L.P., and Project Finance Fund III, L.P., respectively, which in turn have investments in numerous electric generating facilities in the United States and elsewhere. The Company has a carrying amount in the investment of $10.0 million and $8.4 million at December 31, 2001 and 2000, respectively, which includes $1.9 million and $2.1 million, respectively, that represents the cost of the investment over the underlying net assets of the funds. This excess is being amortized over 10 years. As of and for the year ended December 31, 2001, the funds had assets of $215.1 million, liabilities of $0.7 million and net income of $37.2 million. As of, and for the year ended December 31, 2000, the funds had assets of $186.8 million, liabilities of $16.0 million and net income of $27.1 million.

- A 50 percent interest in two natural gas-fired co-generation facilities located in Rupert and Glenns Ferry, Idaho. The Company's carrying amount in the investment is $3.9 million and $4.1 million as of December 31, 2001 and 2000, respectively, which includes $0.5 million that represents the cost of the investment over the value of the underlying net assets of the projects. This excess is being amortized over 19 years. As of and for the year ended December 31, 2001, these projects had assets of $25.6 million, liabilities of $19.0 million and a net loss of $(0.4) million. As of, and for the year ended December 31, 2000, these projects had assets of $26.0 million, liabilities of $18.7 million and net income of $0.9 million.

- A direct and indirect ownership of approximately 53 percent (32 percent in 2000) representing 50 percent voting control, of Harbor Cogeneration Company (see Note 18). Harbor Cogeneration owns a 98 megawatt gas-fired plant (expanded from 80 megawatts in 2000) located in Wilmington, California. At December 31, 2001 and 2000, the Company's carrying amount in the investment was $47.9 million and $42.2 million, respectively, which includes $12.2 million and $13.7 million, respectively, which represents the cost of the investment over the value of the underlying net assets of Harbor. This excess is being amortized over 15 years. As of and for the year ended December 31, 2001, Harbor had assets of $51.4 million, liabilities of $0.4 million and net income of $10.1 million. As of, and for the year ended December 31, 2000, Harbor had assets of $41.7 million, liabilities of $0.8 million and net income of $28.8 million.

(4) COMMON STOCK

Common Stock Offering

During 2001, the Company completed a public offering of its common stock through which approximately 3.4 million shares were sold at $52 per share. Net proceeds were approximately $163 million after commissions and expenses. The proceeds were used to repay a portion of current indebtedness under revolving credit facilities, to fund various power plant construction costs and for general corporate purposes.

Employee Stock Incentive and Employee Stock Purchase Plans

The Company has several employee stock incentive plans (Stock Incentive Plans), which allow for the granting of stock options with exercise prices equal to the stock's fair market value on the date of grant, and an employee stock purchase plan (ESPP Plan). The Company accounts for such plans under APB No. 25, and has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock Based Compensation" (SFAS 123). Accordingly, no compensation cost has been recognized.

The Company may grant options for up to 2,200,000 shares of common stock under the Stock Incentive Plans. The Company has 1,037,882 shares available to grant at December 31, 2001. The option exercise price equals the fair market value of the stock on the day of the grant. The options granted vest one-third a year for three years and all expire after ten years from the grant date.

A summary of the status of the stock option plans at December 31, 2001, 2000 and 1999, and changes during the years then ended are as follows:

	2001		2000		1999
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Balance at beginning of year	914,917	$23.43	431,450	$21.35	292,700
Granted	203,000	$37.09	492,500	$25.22	140,250
Forfeited	(30,834)	$22.13	(4,000)	$23.25	(1,500)
Exercised	(94,211)	$20.41	(5,033)	$21.33	-
Balance at end of year	992,872	$26.55	914,917	$23.43	431,450
Exercisable at end of year	445,252	$22.76	292,891	$20.43	182,400

Details of outstanding options at December 31, 2001 are as follows:

Option Exercise Prices	Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Shares Exercisable	Weigh Exer
$16.67 to $25.00	680,872	$21.75	7.4 years	407,600	
$25.01 to $37.50	151,000	$31.04	9.8 years	3,166	
$37.51 to $55.36	161,000	$42.65	9.1 years	34,486	

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of the options granted and the assumptions used to estimate the fair value of options are as follows:

	2001	2000	1999
Weighted average fair value of options at grant date	$10.77	$3.88	$4.16
Weighted average risk-free interest rate	5.92%	6.30%	6.68%
Weighted average expected price volatility	34.92%	20.60%	19.85%
Weighted average expected dividend yield	2.90%	4.20%	4.50%
Expected life in years	10	10	10

Had compensation cost been determined consistent with SFAS 123, the Company's net income and earnings per share would have been reduced to the following pro forma amounts for the years ended December 31 (unaudited):

	2001	2000	1999
	(in thousands, except per share amounts)		
Net income available for common:			
As reported	$87,550	$52,770	$37,067
Pro forma	$86,845	$52,432	$36,877
Earnings per share:			
As reported -			
Basic			
Continuing operations	$ 3.43	$ 2.39	$1.76
Discontinued operations	0.02	-	(0.03)
Total	$ 3.45	$ 2.39	$1.73
Diluted			
Continuing operations	$ 3.40	$ 2.37	$1.76
Discontinued operations	0.02	-	(0.03)
Total	$ 3.42	$ 2.37	$1.73
Pro forma -			
Basic			
Continuing operations	$ 3.40	$ 2.38	$1.75
Discontinued operations	0.02	-	(0.03)
Total	$ 3.42	$ 2.38	$1.72
Diluted			
Continuing operations	$ 3.37	$ 2.35	$1.75
Discontinued operations	0.02	-	(0.03)
Total	$ 3.39	$ 2.35	$1.72

The Company main